

Foreclosure Outlook for the Gateway Cities Subregion

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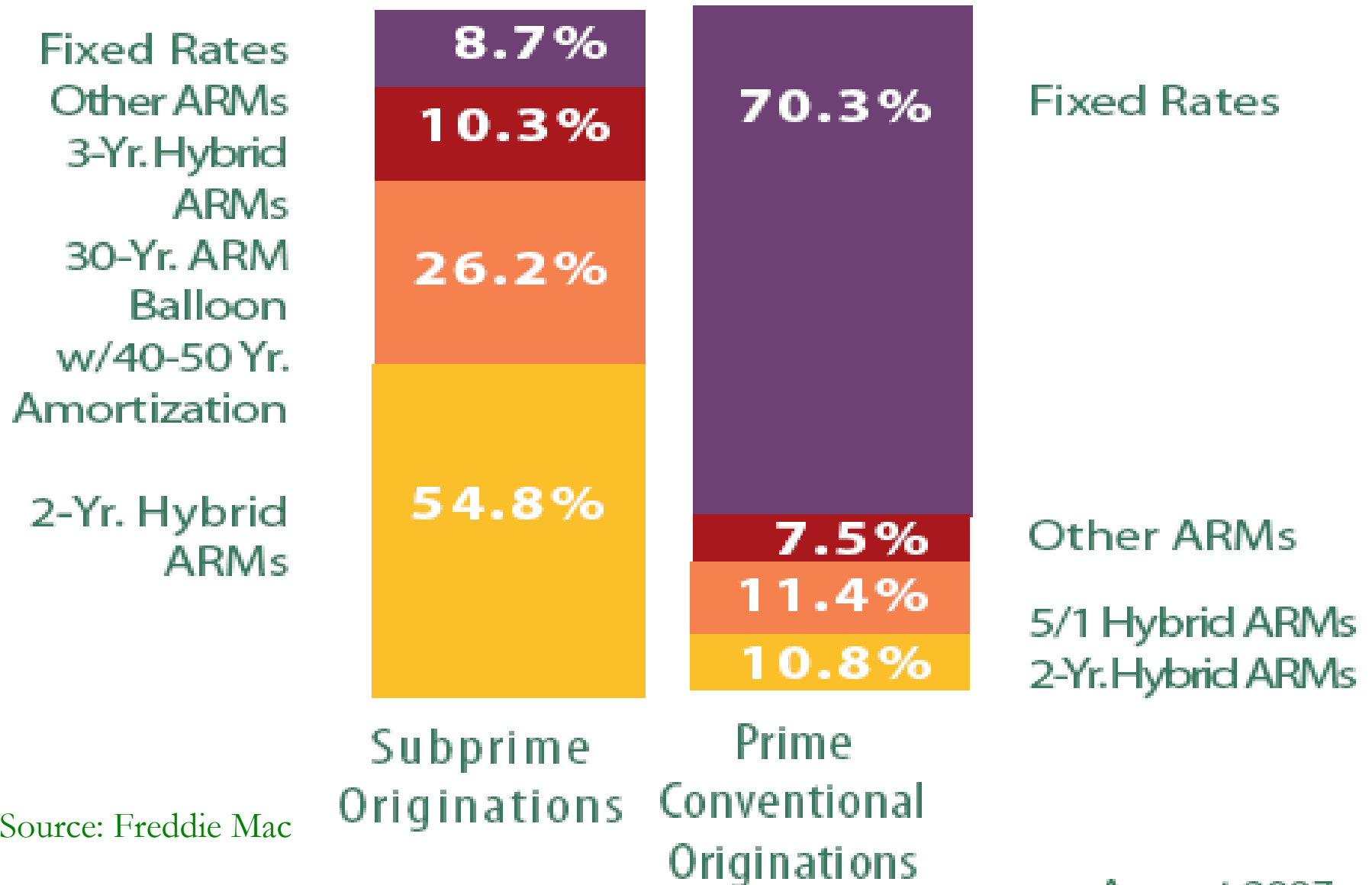
SOUTHERN CALIFORNIA
ASSOCIATION of GOVERNMENTS

SCAG Role

- Help Local Governments understand the causes, scope, and impact of foreclosure trends, especially for low-income families, the workforce and communities
- Assist local governments in organizing cross-community coalitions and public-private partnerships to respond to the lending crisis
- Provide information and support to communities addressing their local housing needs

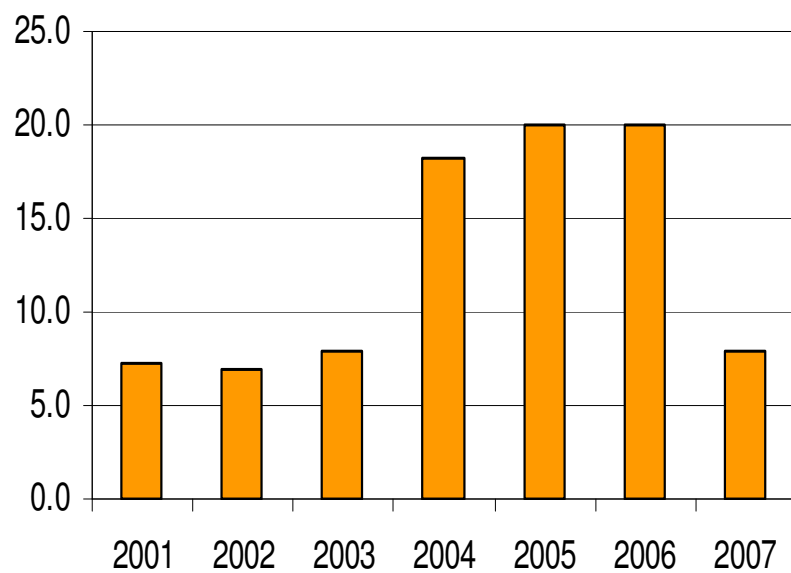
Subprime vs. Prime

Vast Differences in Mortgage Products and Risk Factors

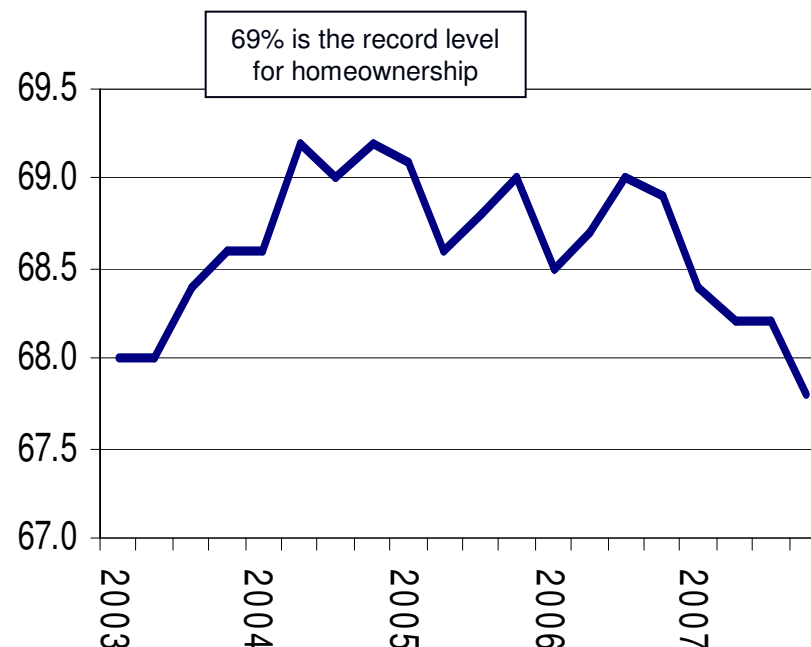


The Record Rise and Fall in U.S. Home Ownership is Related to Subprime Lending

Subprime Loans as % of All New Loans

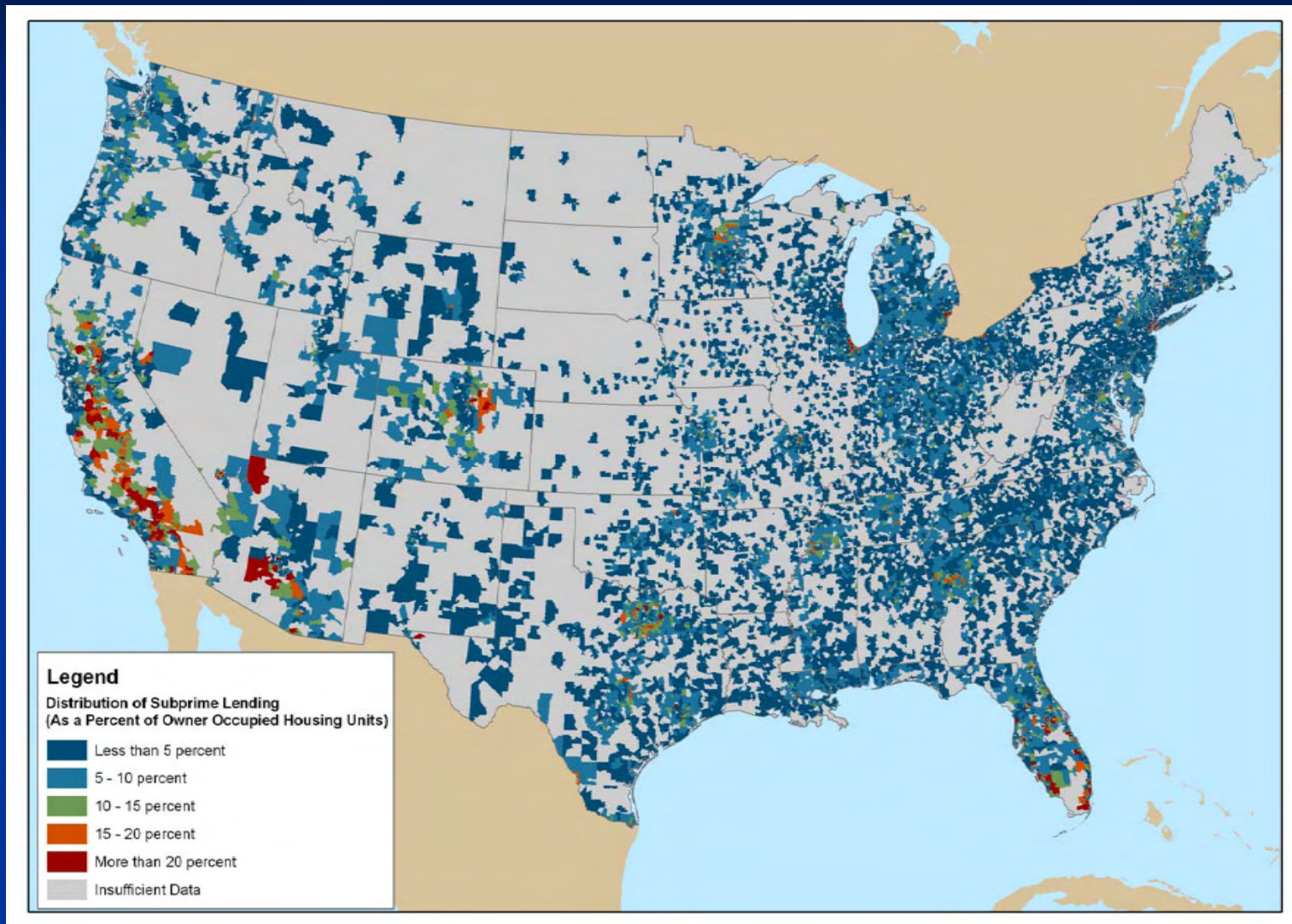


Home Ownership Rate



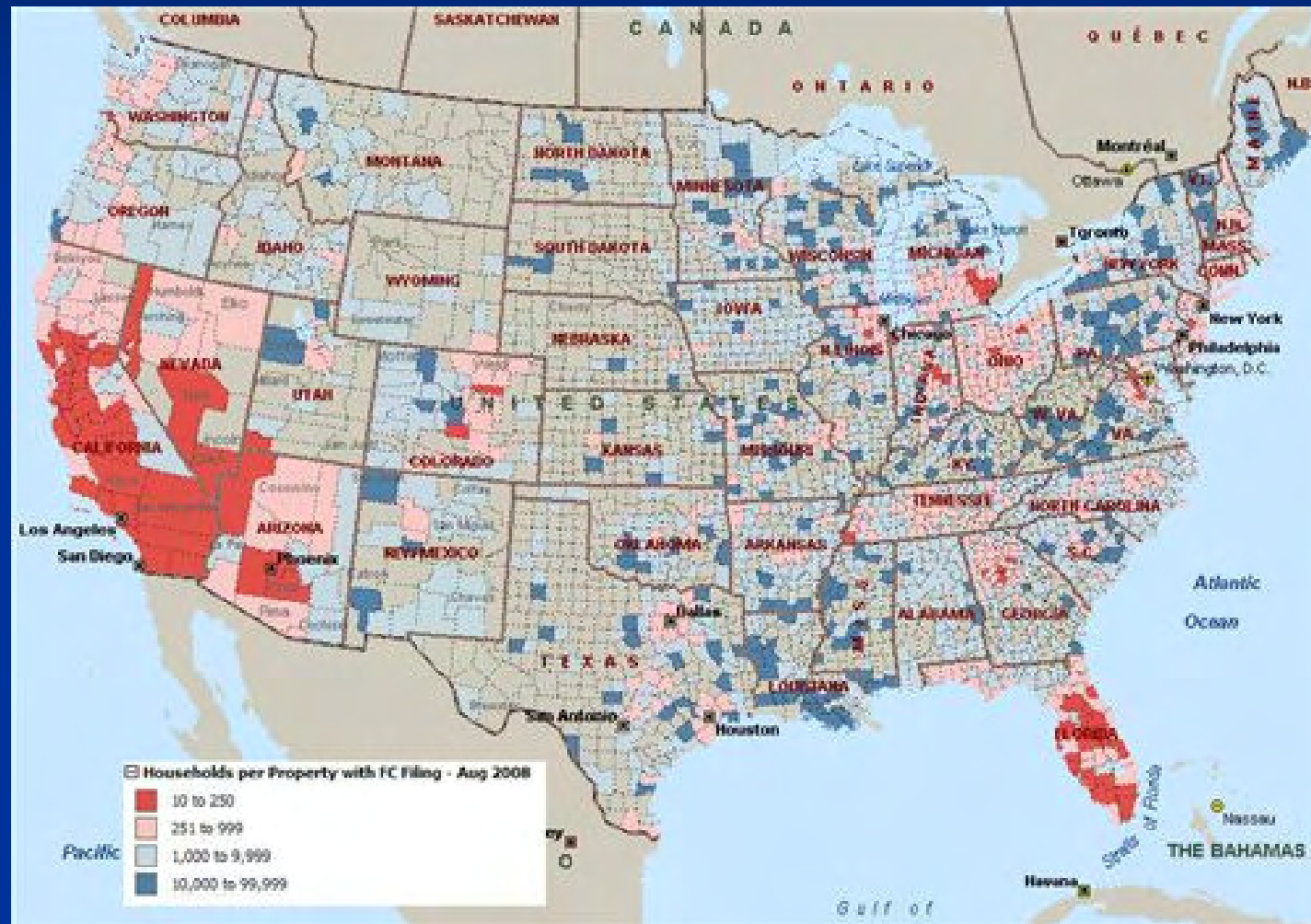
Source: Inside Mortgage Finance, Census Bureau.

Distribution of Subprime Lending



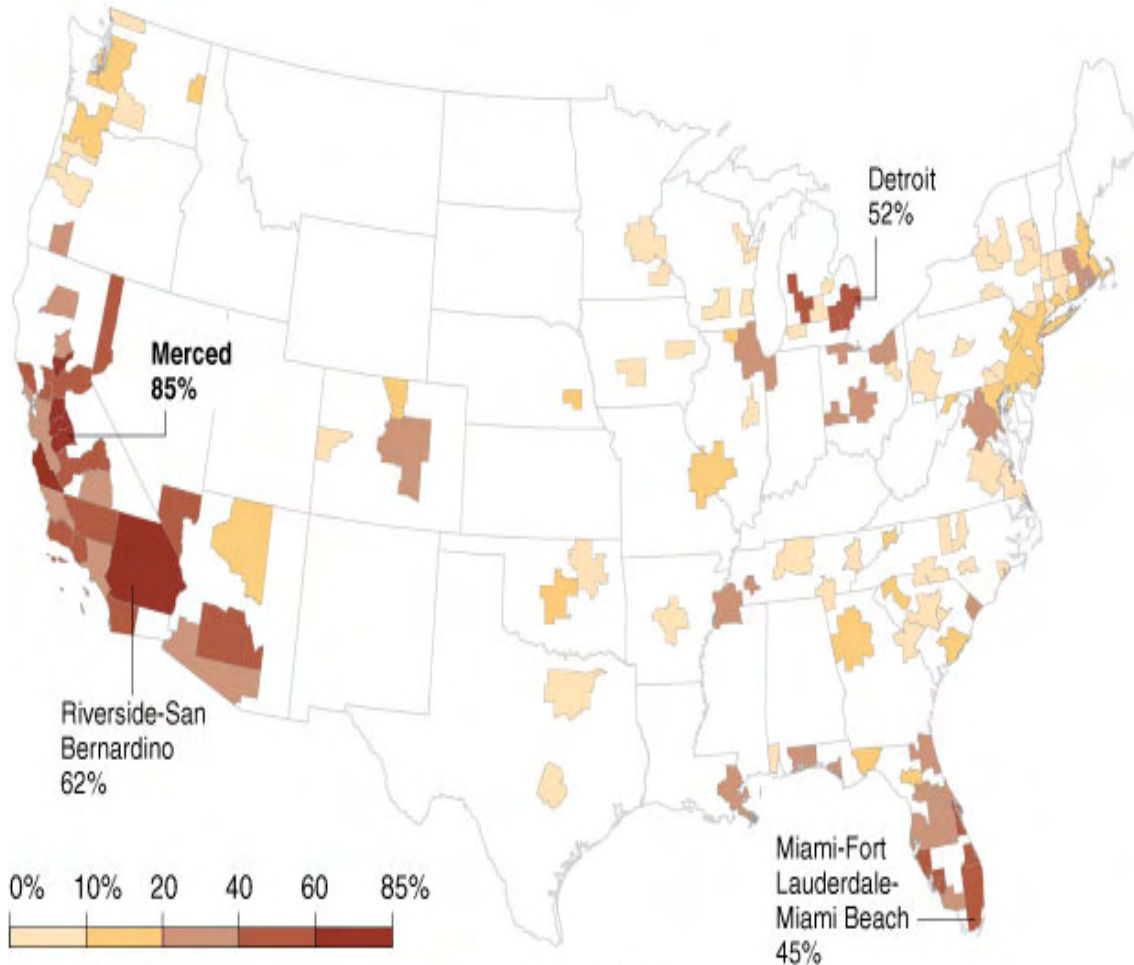
Lending Source: Analysis by Federal Reserve Board of Governors, First American Loan Performance Data, December 2007. Data represent a sample of subprime loans, approximating 70 percent of subprime loan volume. Data aggregated at the zip code level.

Foreclosures are Concentrated in the Western Region of the U.S. and Florida



Source: RealtyTrac, August 2008

Worth Less Than You Paid for It



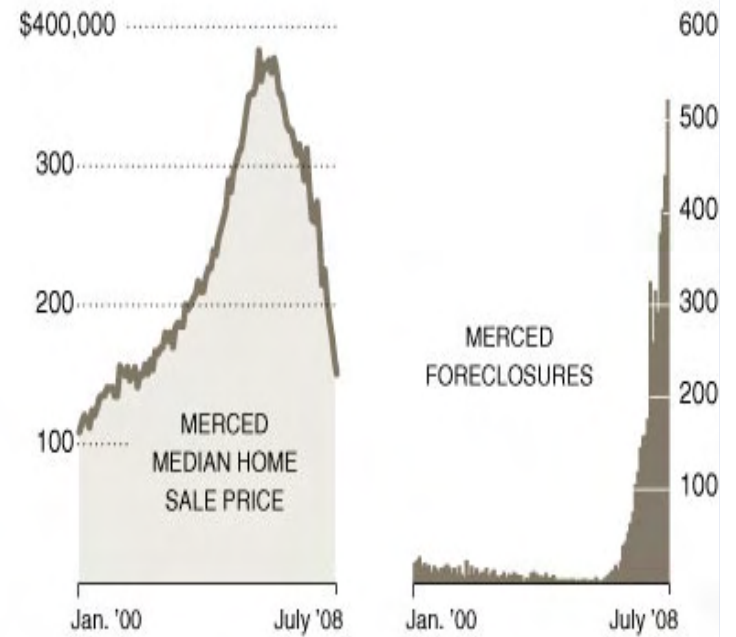
Homeowners with negative equity, April-June 2008

For houses bought in the past five years

Map includes a sampling of large metropolitan statistical areas

Worth Less Than You Paid for It

In California, big numbers of homeowners now find themselves with negative equity, including a huge 85 percent in the Merced metropolitan area. Merced's prices peaked in 2005 and fell swiftly, and foreclosures have soared.



Sources: Zillow; DataQuick Information Systems

HANNAH FAIRFIELD/THE NEW YORK TIMES



A Web Portal with Planning and Mapping Tools

LOTS is designed to support collaborative planning efforts by enabling elected officials, city planners, real estate developers, community organizers and others to do analysis at a parcel, neighborhood and regional level.

Click on the CALOTS link to see the newest version of this tool.

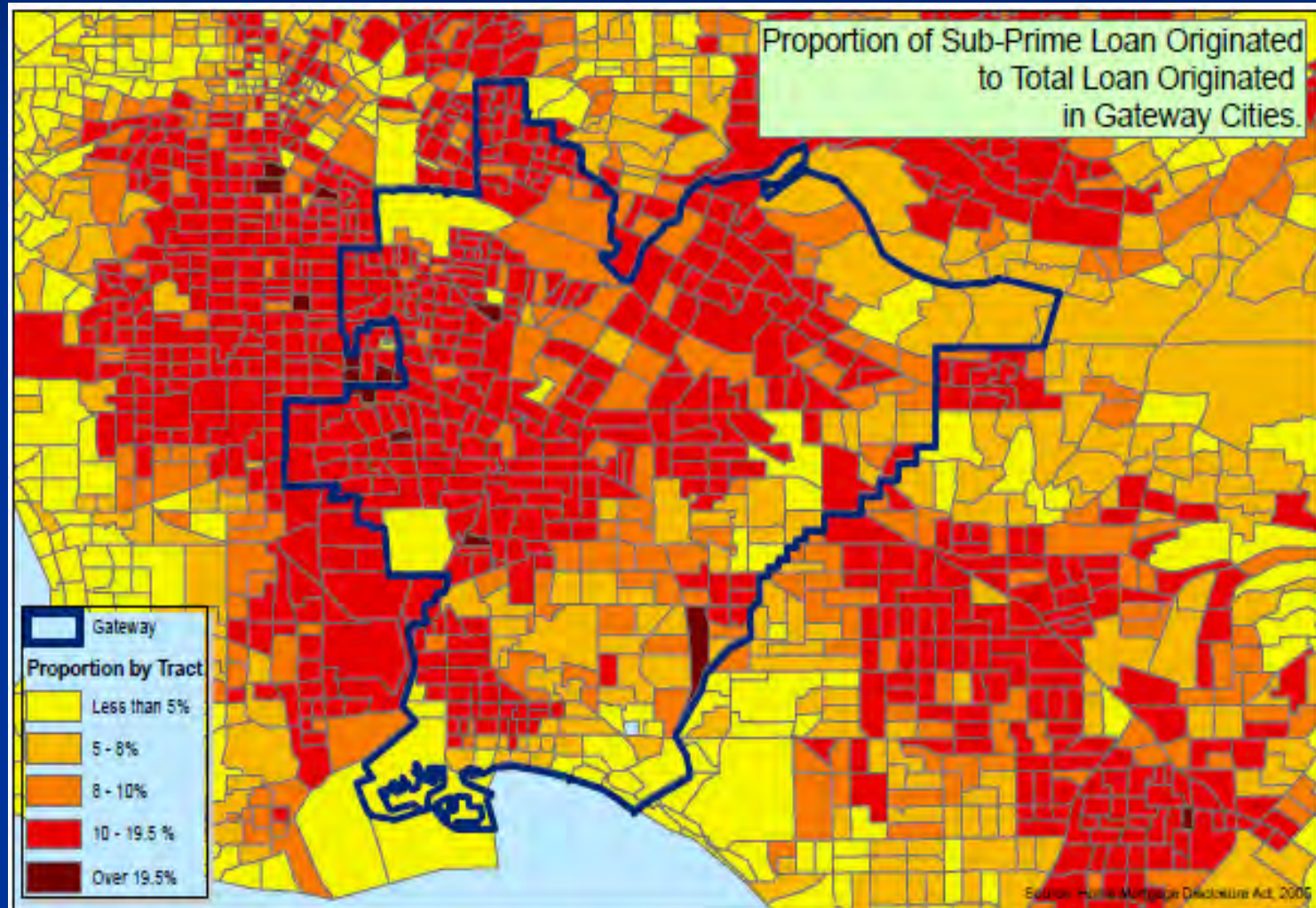
<http://lots.ucla.edu/Master.cfm>

Identifying Hot Spots

Goals of the CALOTS web mapping and analysis tool:

- Help local governments, lenders, and nonprofit organizations target borrower outreach and resources to the most affected areas
- Pin point where delinquencies and foreclosures are occurring
- Provide an early warning tool for neighborhoods most at-risk
- Focus outreach strategies and resources in hard hit neighborhoods with foreclosures
- Locate REO properties suitable for conversion into affordable housing and/or rental opportunities for low-and moderate income families

Hot Spots for Loans made by HUD Defined Subprime Lenders



Foreclosures in Southern California by County for August 2008

- Imperial Co. – 475 Units
- Los Angeles Co. – 19,803 Units
- Orange Co. – 5,766 Units
- Riverside Co. – 11,485 Units
- San Bernardino Co. – 9,651 Units
- Ventura Co. – 1,798 Units
- **SCAG Region – 48,978 Units, or about $\frac{1}{6}$ of the National total**
- State – 101,724 Units, or about $\frac{1}{3}$ of the National total

Source: RealtyTrac, SCAG

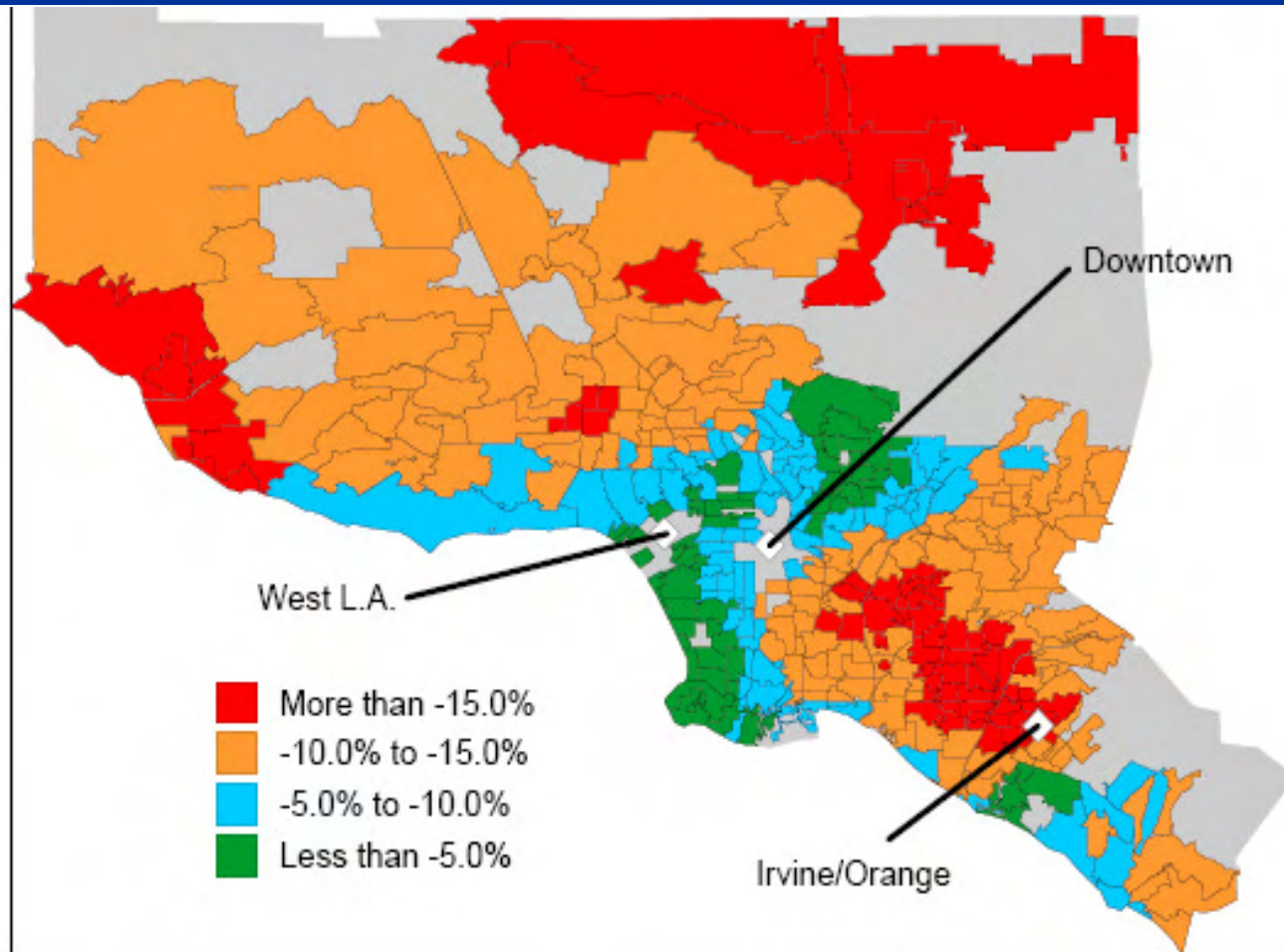
Falling Home Values and Loss of Equity are Fueling Distressed Sales and Foreclosures and Vice Versa

All homes	Aug-07	Aug-08	%Chng	Aug-07	Aug-08	%Chng
Los Angeles	6,647	6,138	-8%	\$550,000	\$380,000	-31%
Orange	2,285	2,713	19%	\$642,000	\$440,000	-32%
Riverside	2,834	4,078	44%	\$394,523	\$247,450	-37%
San Bernardino	2,096	2,439	16%	\$360,000	\$215,000	-40%
San Diego	3,104	3,148	1%	\$475,000	\$350,000	-26%
Ventura	789	850	8%	\$575,000	\$400,000	-30%
SoCal	17,755	19,366	9%	\$500,000	\$330,000	-34%

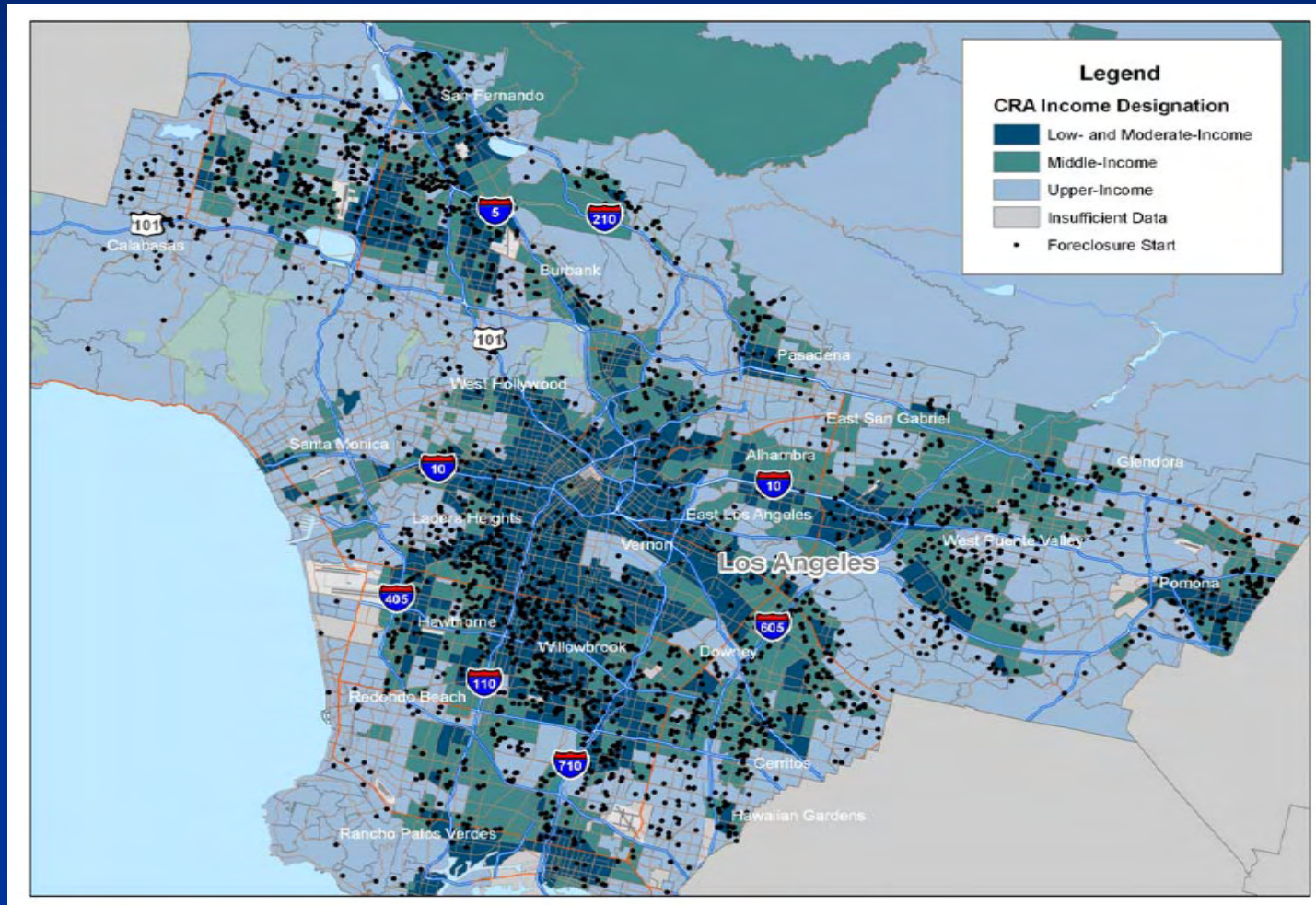
Source: DQNews.com

Location Influences the Rate of Home Price Decline

Since housing price peaked in 2005 and 2006, home prices have generally fallen more in towns and neighborhoods located farther away from urban centers, according to the S&P/Case-Shiller Housing Cost Index



Foreclosure Start in Low and Modest Income Neighborhoods



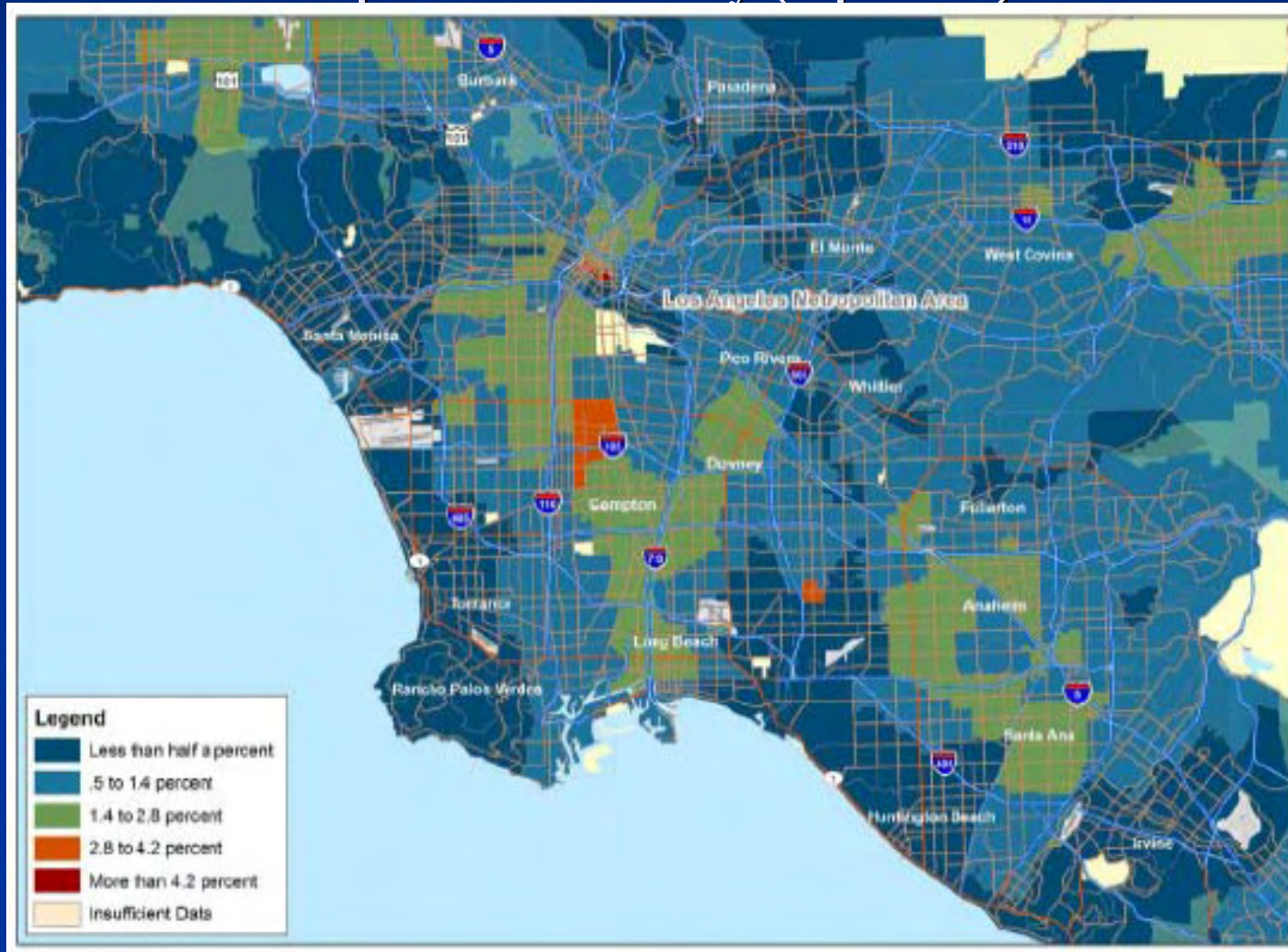
Analysis by Federal Reserve Board of Governors, First American Loan Performance Data, December 2007. Data represent a sample of subprime loans, approximating 70 percent of subprime loan volume. Data aggregated at the zip code level.

The Costs of Foreclosure

- Neither lenders nor investors “make money” on foreclosures
- Losses range from 20 to 60 cents on the dollar
- One estimate: **lender’s cost of a foreclosure averages \$58,800**
- One estimate: each foreclosure is associated with a 0.9% decrease in values of properties within 1/8th mile
- Services incur expenses pursuing problem loans
- Legal costs from securing/ maintaining properties
- Vacant properties can attract crime and reduce neighborhood property values
- **Average municipal cost is \$7,000 per foreclosure**

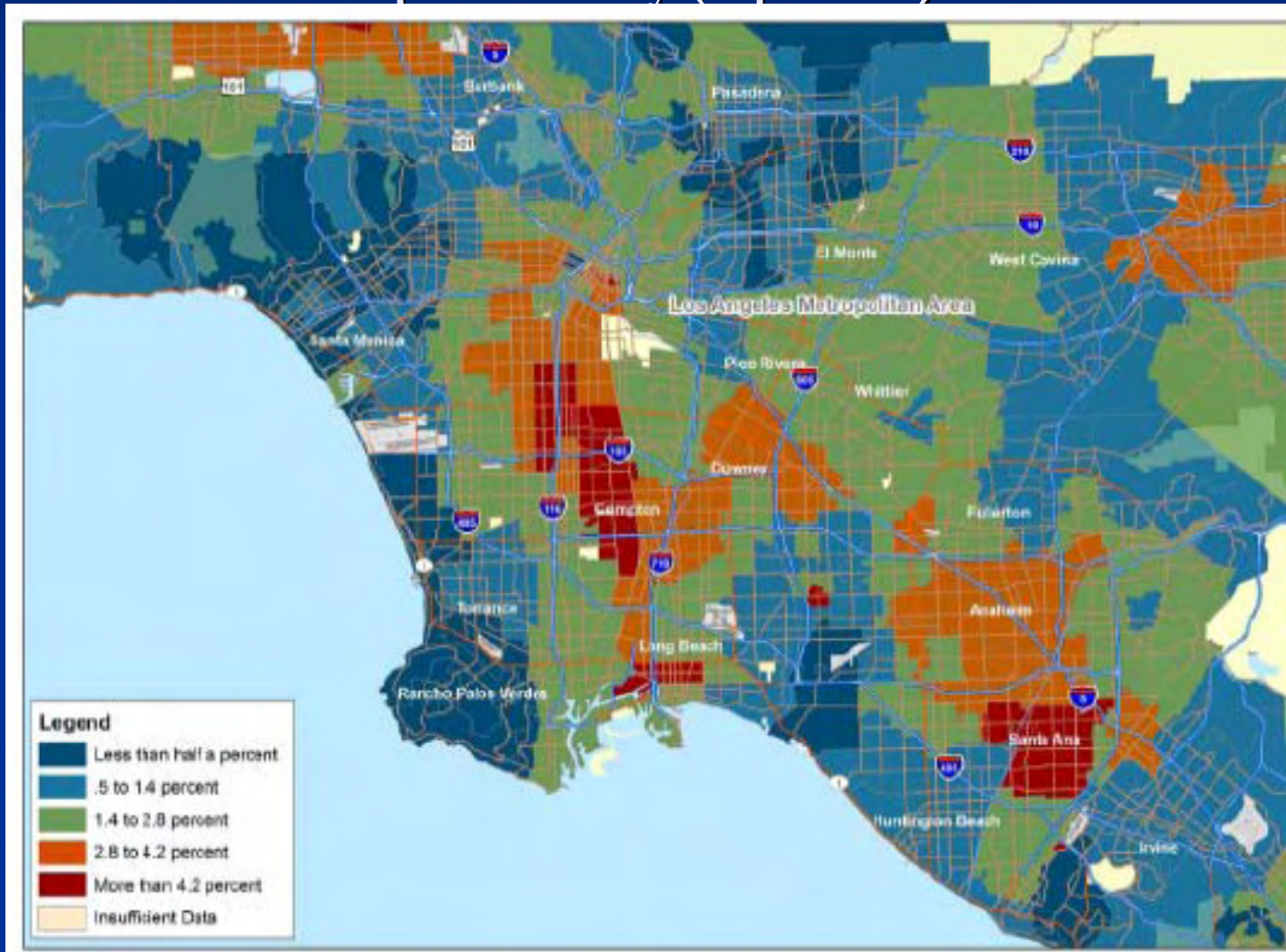
Percent of Mortgage Loans or REOs in Foreclosure

September 2007 by (zip code)



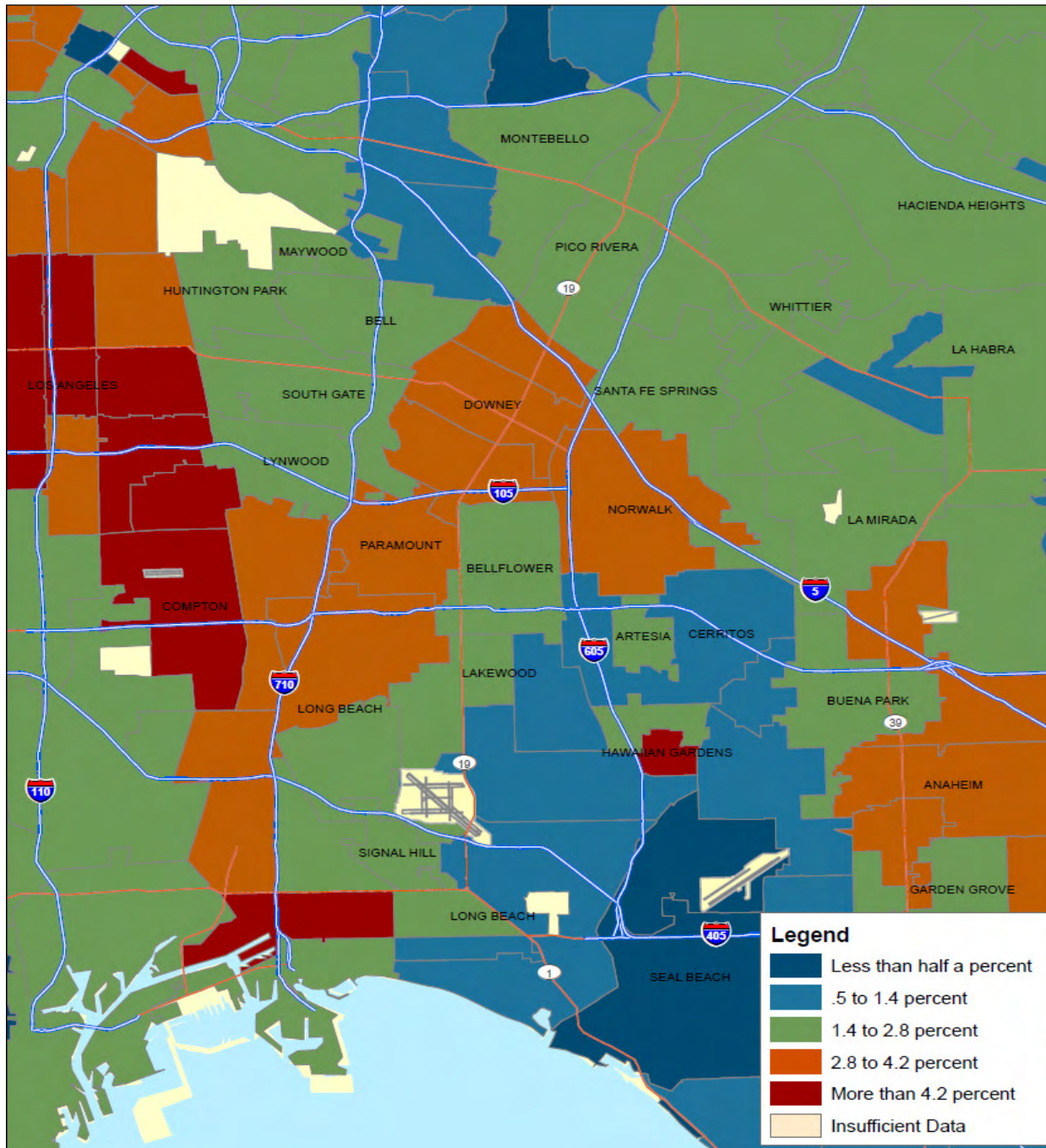
Percent of Mortgage Loans or REOs in Foreclosure

April 2008 by (zip code)



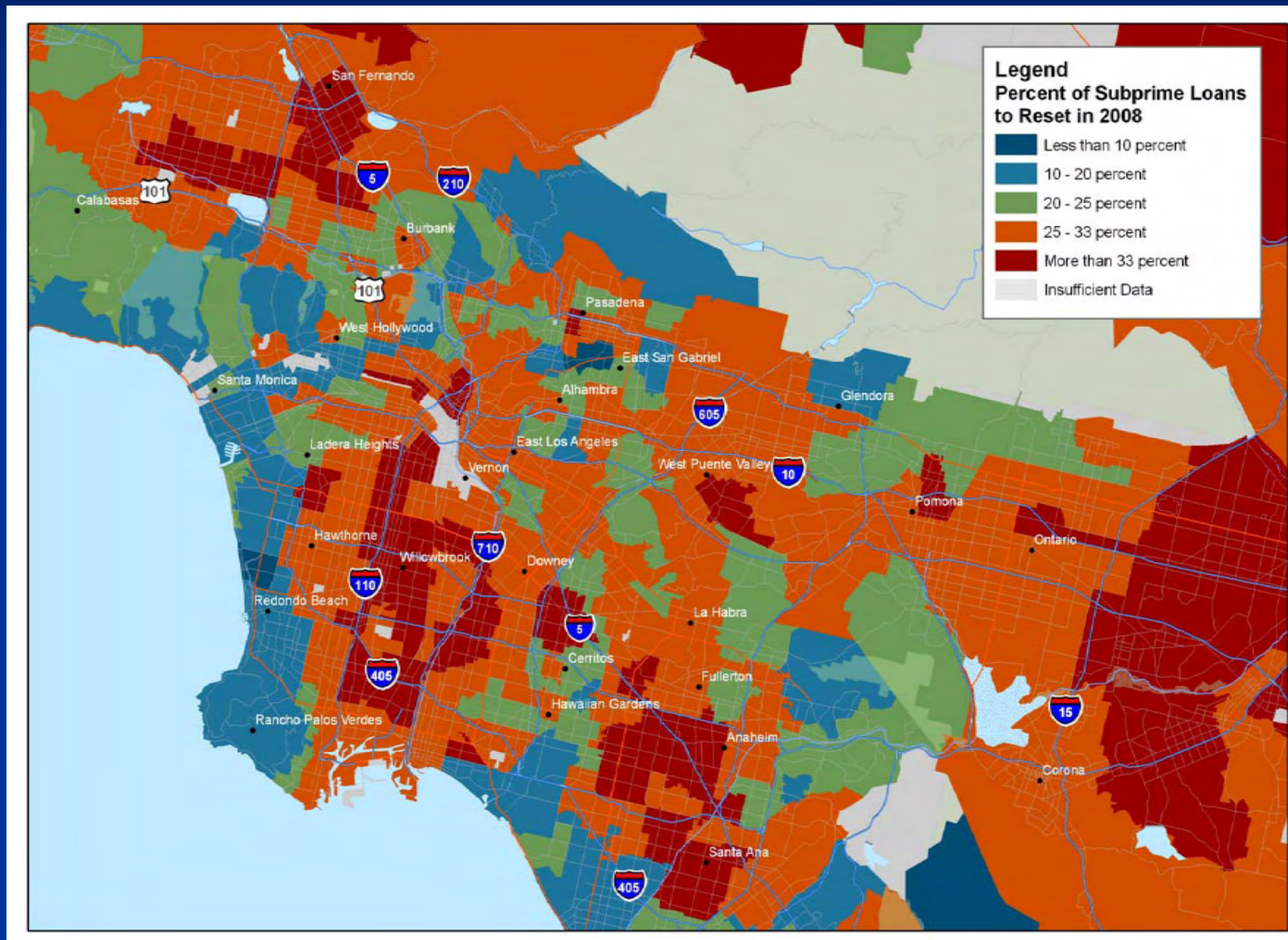
Gateway Cities Close- Up

■ Percent of
Loans in
Foreclosure or
REO - April
2008



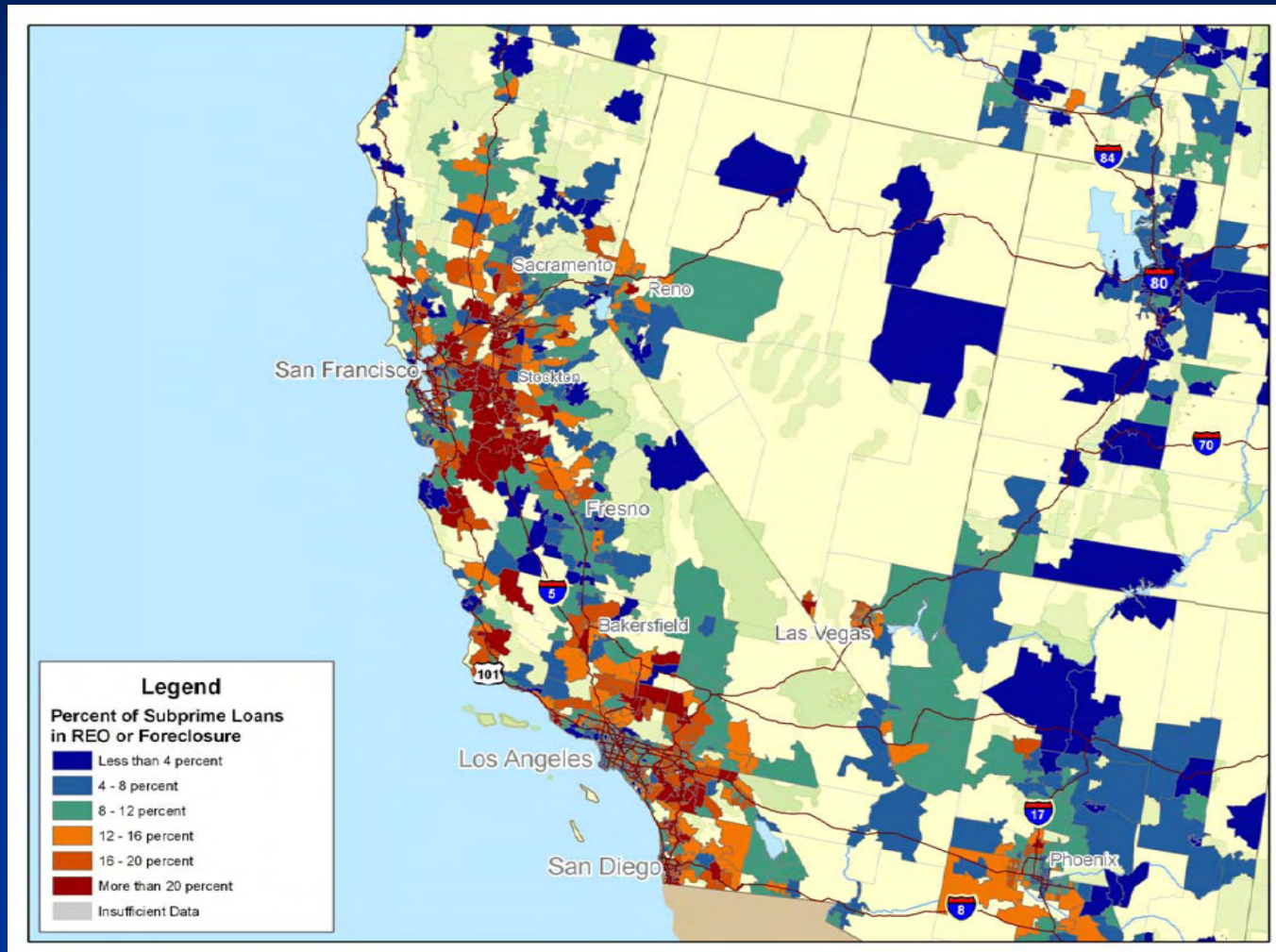
Source; McDash Analytics, FRBSF Calculations. Includes both prime and subprime loans.

Percent of Subprime Loans to Reset in 2008 indicates Where Foreclosures May Concentrate



Analysis by Federal Reserve Board of Governors, First American Loan Performance Data, December 2007. Data represent a sample of subprime loans, approximating 70 percent of subprime loan volume. Data aggregated at the zip code level.

Inland California Areas have the Highest Percent of Subprime Loans in Foreclosure



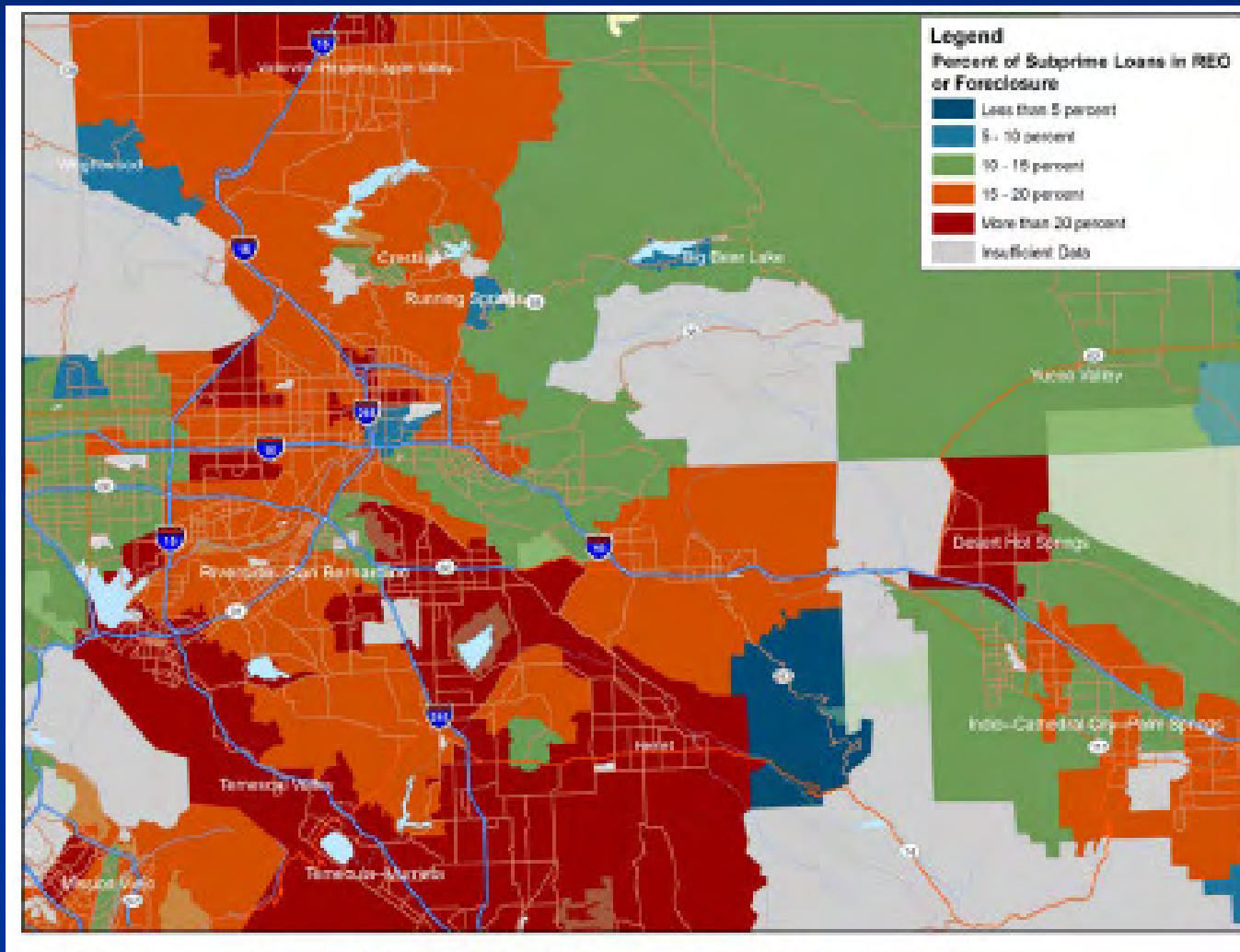
Analysis by Federal Reserve Board of Governors, First American Loan Performance Data, December 2007. Data represent a sample of subprime loans, approximating 70 percent of subprime loan volume. Data aggregated at the zip code level.

The Concentration of Foreclosures in Southern California for August 2008

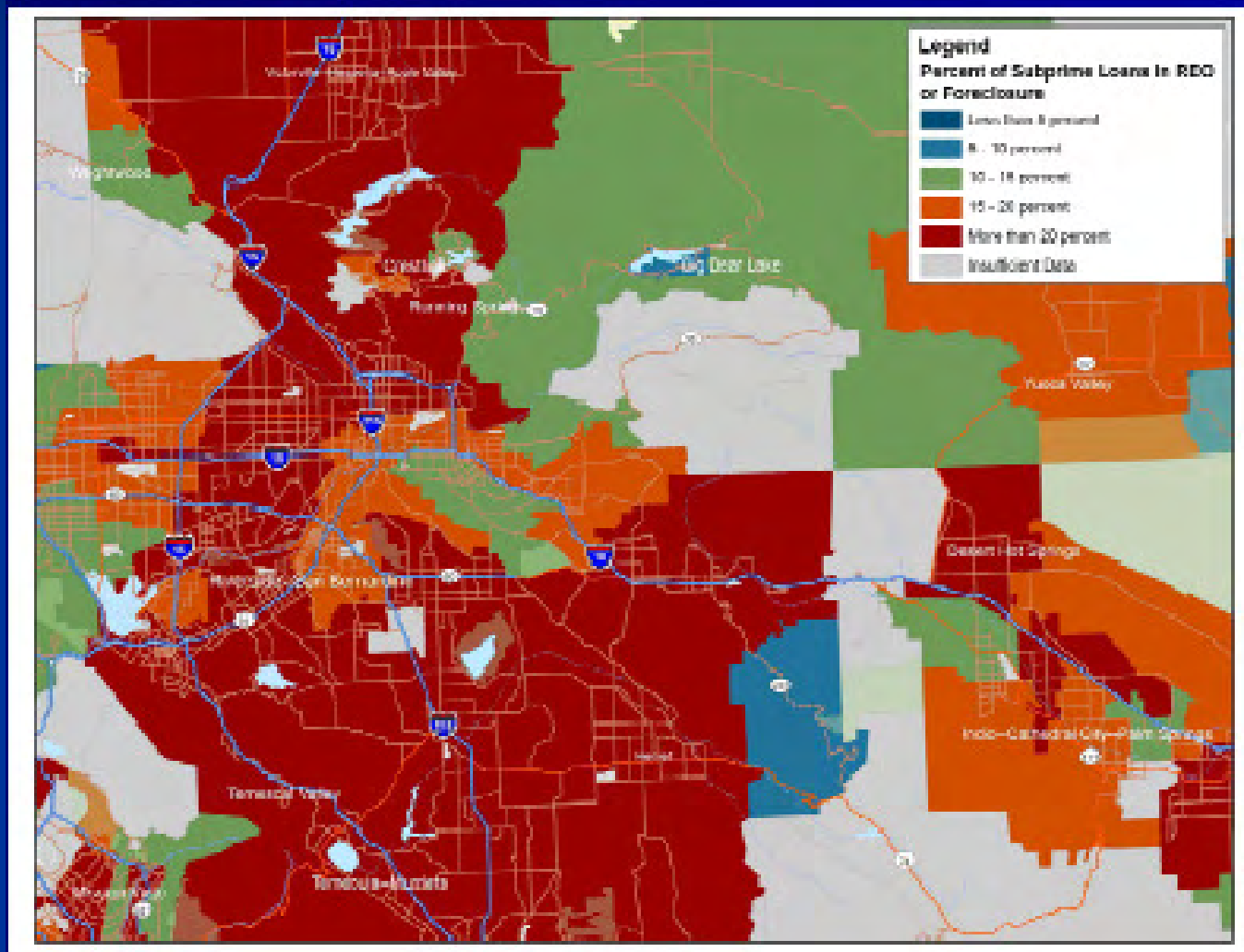
- One in every 108 housing units in Imperial Co.
- One in every 169 housing units in Los Angeles Co.
- One in every 177 housing units in Orange Co.
- One in every 63 housing units in Riverside Co.
- One in every 69 housing units in San Bernardino Co.
- One in every 150 housing units in Ventura Co.
- One in every 129 housing units in California

Source: RealtyTrac,

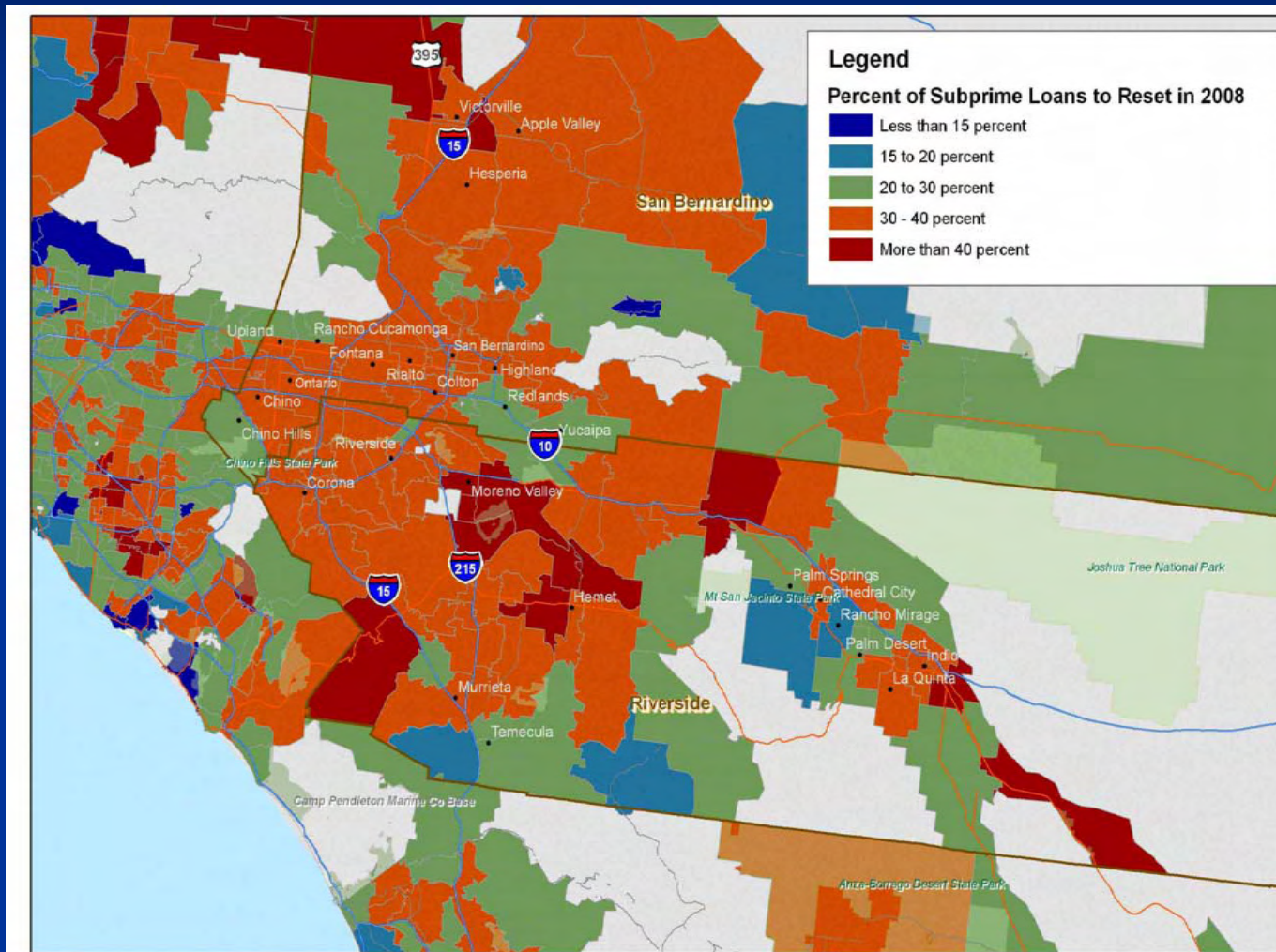
Inland Empire Foreclosure Hot Spots – December 2007



Inland Empire Foreclosure Hot Spots – February 2008



Percent of Subprime Loans to Reset in 2008 indicates Where Foreclosures May Concentrate



Analysis by Federal Reserve Board of Governors, First American Loan Performance Data, December 2007. Data represent a sample of subprime loans, approximating 70 percent of subprime loan volume. Data aggregated at the zip code level.

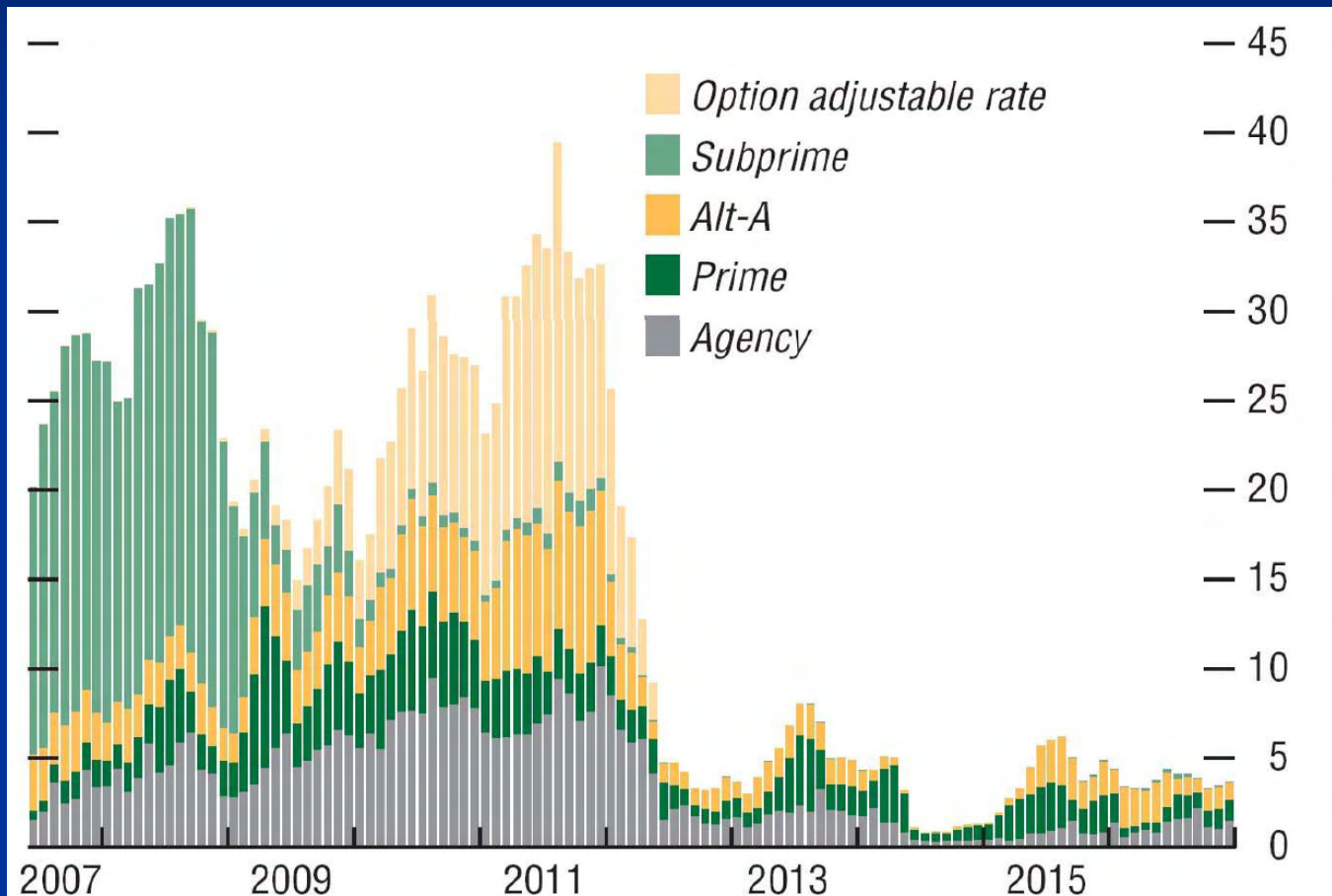
Market Uncertainty Has Halted Construction Plans

State New-Home Production in 2007

Fell to Lowest Level in 25 Years.

- During the first eight months of 2008, permits were pulled for 46,874 units, down 45 percent from the same period in 2007 when 85,422 permits had been issued.
- Single-family permits were down 54 percent while multifamily permits dropped 30 percent.
- CIRB is now projecting a total of 70,000 units for all of California in 2008 because of high existing inventory and foreclosures.

2nd Wave of Foreclosures: Alt A and Option Arms



Source: Credit Suisse.

The American Housing Rescue and Foreclosure Prevention Act

- Provides \$3.9 Billion in CDBG funds for communities to purchase foreclosures and vacant homes that can be sold or rented to low and moderate income households
- California should receive a large percentage of funds because it has one of the nation's highest rates of foreclosure
- Requires HUD to establish a formula within 60 days based on three criteria:
 - The number and percent of home foreclosures
 - The number and percent of homes financed with subprime mortgages
 - The number and percentage of homes in default or delinquency

**The U.S. Department of Housing and
Urban Development announced on
9/26/08 that it has set aside nearly \$4
billion to stabilize neighborhoods, and the
state of California will receive more than
\$500 million of the total, said HUD
Secretary Steve Preston**

The grantee universe is comprised of the 1,201 state and local governments funded in FY 2008 under the regular Community Development Block Grant formula. However, if a local government receives an allocation based on the mandated HUD criteria of less than \$2 million, its allocation amount is rolled up into the state government grant

Eligible Uses

- NSP funds may be used for activities which include, but are not limited to:
 - Establish financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties;
 - Purchase and rehabilitate homes and residential properties abandoned or foreclosed;
 - Establish land banks for foreclosed homes;
 - Demolish blighted structures;
 - Redevelop demolished or vacant properties
- NSP grantees must use at least 25 percent of the funds appropriated for the purchase and redevelopment of abandoned or foreclosed homes or residential properties that will be used to house individuals or families whose incomes do not exceed 50 percent of the area median income.
- In addition, all activities funded by NSP must benefit low- and moderate-income persons whose income does not exceed 120 percent of area median income.

California's Allocation – SCAG region in red:	NSP Allocation
CALIFORNIA STATE PROGRAM (HCD will allocate)	\$145,071,506
ALAMEDA COUNTY	\$2,126,927
ANAHEIM	\$2,653,455
ANTIOCH	\$4,049,228
APPLE VALLEY	\$3,064,836
BAKERSFIELD	\$8,982,836
CHULA VISTA	\$2,830,072
COMPTON	\$3,242,817
CONTRA COSTA COUNTY	\$6,019,051
CORONA	\$3,602,842
ELK GROVE	\$2,389,651
FONTANA	\$5,953,309
FRESNO	\$10,969,169
FRESNO COUNTY	\$7,037,465
HEMET	\$2,888,473
HESPERIA	\$4,590,719
KERN COUNTY	\$11,211,385
LANCASTER	\$6,983,533
LONG BEACH	\$5,070,310
LOS ANGELES	\$32,860,870
LOS ANGELES COUNTY	\$16,847,672
MODESTO	\$8,109,274
MORENO VALLEY	\$11,390,116
OAKLAND	\$8,250,668
ONTARIO	\$2,738,309
ORANGE COUNTY	\$3,285,926

PALMDALE	\$7,434,301
POMONA	\$3,530,825
RANCHO CUCAMONGA	\$2,133,397
RIALTO	\$5,461,574
RICHMOND	\$3,346,105
RIVERSIDE	\$6,581,916
RIVERSIDE COUNTY	\$48,567,786
SACRAMENTO	\$13,264,829
SACRAMENTO COUNTY	\$18,605,460
SAN BERNARDINO	\$8,408,558
SAN BERNARDINO COUNTY	\$22,758,188
SAN DIEGO	\$9,442,370
SAN DIEGO COUNTY	\$5,144,152
SAN JOAQUIN COUNTY	\$9,030,385
SAN JOSE	\$5,628,283
SANTA ANA	\$5,795,151
STANISLAUS COUNTY	\$9,744,482
STOCKTON	\$12,146,038
VALLEJO	\$2,657,861
VICTORVILLE	\$5,311,363
VISALIA	\$2,388,331
TOTAL	\$529,601,773

Concern over the Fairness of the HUD Allocation

- California had 101,724 foreclosure filings for a rate of one foreclosure per 129 housing units in the state
- SCAG Region had 48,978 foreclosures and a concentration of one foreclosure per 124 housing units
- In contrast, Florida had 44,000 foreclosures for a rate of one in 193 housing units in the state and received slightly more Home Relief funds than CA: Florida received \$541 million; CA \$521 million – Why?

State HCD Allocation Priorities

Within the state, all jurisdictions are eligible, but priority will be given to areas with the greatest need. That distribution will be based on areas that:

1. Have the greatest percentage of foreclosures
2. Have the highest percentage of homes financed by subprime mortgages
3. Face a significant rise in the rate of home foreclosures

The income requirement for families who will be assisted by the program is 120% of the area median income (AMI).

At least 25% of the funds must be spent to purchase and redevelop homes for those with incomes not exceeding 50% AMI.

SCAG's Next Steps

- Increase a focus on mitigating the impact of foreclosures on borrowers and neighborhoods because concentrated foreclosures may result in negative effects, such as:
 - Decrease neighborhood property values
 - Increase local crime rates
 - Effects on the provision of local services
- Analyze lending and foreclosure data to assist local governments and nonprofits to acquire REO properties and convert them to affordable homeownership or rental units

SCAG's Next Steps

- Identify “Best Practices” in REO property conversion to affordable housing
- Promote sustainable homeownership opportunities



The 9/22/08 Wall Street Rescue Plan

- What is being proposed by the Administration?
 - \$700 Billion for Treasury Debt Authority to:
 - Purchase Residential/Commercial Mortgage Related assets, including securities and loans
 - Assets must have been on balance sheets prior to 9/17/2008
 - Authority expires in 2 years
 - Congress is reviewing plan and seeks to add:
 - Oversight structure and equity sharing
 - Limits on compensation of executives benefiting from the rescue
 - Mortgage relief for struggling borrowers

Thank You

Visit our Housing Southern Californians homepage:
<http://scag.ca.gov/housing/index.htm>

Grateful acknowledgement to the Federal Reserve Bank and its
Community Development Department for providing the maps and
several graphics used in this presentation.